MAY 1991

INDUSTRIAL DISTRIBUTION

THE MANAGEMENT AND SALES MAGAZINE FOR DISTRIBUTORS

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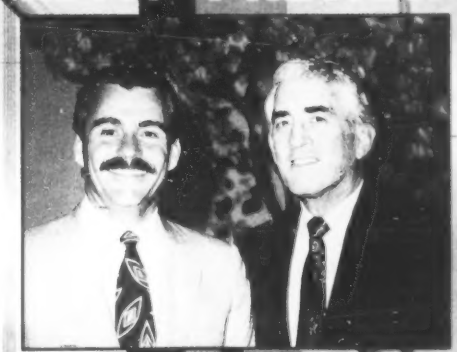

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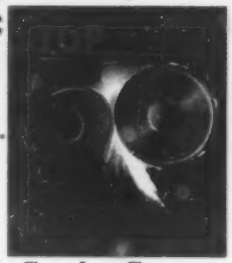

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Distributors expect a strong second half

The post-war scenario calls for an upbeat '92.

Kuwait has been liberated. The troops are coming home. Young couples looking to buy their first house are swarming over real estate offices. And automobile dealers report strong traffic for the first time in several months.

This must mean the industrial market is turning around too? It is, says Cahners Economics, but not as fast as many industrial distributors would like.

G. Cheston Carey reports strong quoting activity and expects an economic rebound later this year.

Cahners Economics predicts that the recent upswing in consumer confidence will spark an expansion in the industrial sector. But Cahners economist Paul Waters warns that distributors won't see tangible evidence of the upturn until the beginning of the 3rd quarter (see charts).

"Given the magnitude of the downturn since last October, it's unlikely that the recent boost in the consumer sector is enough to send the industrial economy back into an expansion just yet," Waters says. "With consumer confidence up, the rebound later this year will be stronger than if the Persian Gulf War had dragged on for several months."

In interviews with nearly a dozen distributors, ID learned that except for unusual pockets like the Midwest and Pacific Northwest, industrial distributors are waiting patiently for the recession to end, and are "cautiously optimistic" about an economic recovery later this year.

In the recession-torn Northeast, G. Cheston Carey, president of Carey Machinery & Supply Co. in Baltimore, Md., reports sluggish activity thus far in 1991.

"Our salespeople are out there quoting on a lot of business, and the phones are busy, but I haven't seen the pick-up everybody's been talking about," Carey says. "While I don't have any great insight into what the future will bring, the recent upswing on the consumer side gives me hope that the second half of '91 will be much stronger for us."

Deeper into the Northeast, Andy Bamber, president of Bamber Tool Supplies in North Haven, Conn., agrees with Carey, but says he hasn't seen the strong quoting activity Carey reports.

"There's a lot of pessimism out there in the marketplace right now," Bamber says. "Major players in my state like Pratt & Whitney have announced at least two more rounds of layoffs for this year. While I'm not exactly sure how it will happen, I expect that this poor economic situation will correct itself later this year."

In the South, Bill Vann, Chairman of Young & Vann in Birmingham, Ala., says that the economy in his trade area is still soft.

Notes Vann, "What I've seen since the end of the war is more of a change in attitude as opposed to any real upswing in orders. "The only thing we can do is keep our costs and inventory under control, and fine tune our business through the quality process. I think when business turns around, the companies that have made the commitment to quality are going to be the players."

Herb Haggard, president of Haggard & Stocking Assoc. in Indian-

[*Continued on p. 12*]

Armstrong's Tom Sawyer to retire

CHICAGO—After 44 years with Armstrong Bros. Tool Co., Tom Sawyer, the company's vice president, sales, says he is retiring at the end of 1991.

Sawyer's career with Armstrong Bros. Tool Co. started in 1947, when he took a job as the firm's Philadelphia sales representative. Ten years later, Sawyer was named Armstrong's Eastern regional sales manager.

In 1959, Sawyer was moved to company headquarters in Chicago to become the firm's national sales manager. He was named vice president, sales, a few years after that.

Sawyer graduated from Amherst College in 1943 with a business degree. He served as a Lieutenant on a PT boat in the South Pacific. Sawyer will be succeeded by R. Anderson Klemmt, to date, a regional sales manager. ID

EDI, bar coding top list for the '90s

CHICAGO—Distributors will implement electronic data interchange (EDI) and bar coding at a rapid-fire rate during this decade, according to a recent study by the consulting group Arthur Andersen.

The study, entitled *The Technology Maze in Wholesale Distribution*, was compiled by Arthur Andersen on behalf of the NAW's Distribution Research and Education Foundation. Data from the study is based on interviews with more than 470 distributors.

The report, which is essentially a follow-up to the landmark 1987 Arthur Andersen report, *Facing the Forces of Change*, makes some startling predictions.

For starters, the study says that EDI use will rise from 39% in 1991 to 85% in the next few years (see chart). It also predicts that usage by distributors of bar coding and scanning equipment will rise from a mere 15% today to a sizzling 81% within three years.

Gary Buffington, executive vice

[*Continued on p. 12*]

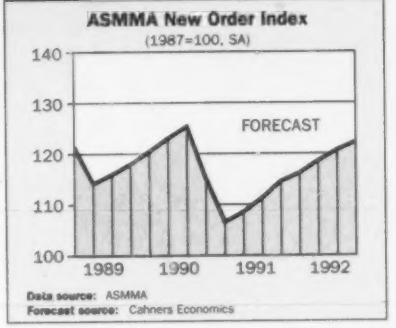
[*Strong second half*]

WITH MAJOR END USERS EXPECTED TO REBOUND NEXT YEAR...

	1990	*(f) 1991	(%chg.) 1992
Domestic auto production	-10.9	-2.0	2.8
Aircraft and parts	3.9	1.9	2.2
Petroleum	2.1	0.3	3.0
Pulp & paper	2.0	0.7	3.5
Chemicals	1.6	1.3	3.3
Plastic processing	1.1	1.0	5.3
Nonelectrical machines	3.8	1.2	4.4
Food processing	2.0	1.8	2.8

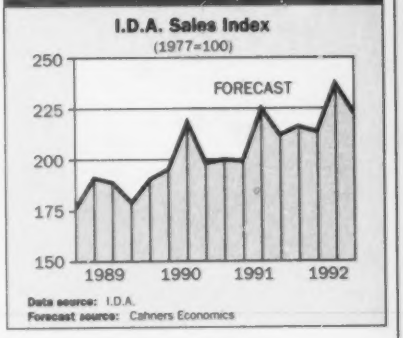
Data source: MVMA, Federal Reserve Board
*(f)= Forecast source: Cahners Economics

INDUSTRIAL MANUFACTURERS ARE PRIMED FOR A STRONG 1992...



Data source: ASMMA
Forecast source: Cahners Economics

AS ARE INDUSTRIAL DISTRIBUTORS.



Data source: I.D.A.
Forecast source: Cahners Economics

apolis, Ind., says that Vann is "right on the money."

"During the past few years, we've worked to position ourselves as a value added house," Haggard says. "What we've found in the recession is that the price-oriented firms don't have the resources to compete."

Haggard predicts a strong second half of '91 and an even stronger 1992, led primarily by the automotive and aerospace industries. While sales at Haggard & Stocking were down 15% overall for the fiscal year ending June 30, Haggard expects to make up the difference, plus another 10% during the year ahead.

Another industrial distributor who is as upbeat as Haggard is Gordon "Bud" Pritchard of Morse Industrial Supply in Bellingham, Wash. "Our business hasn't skipped a beat, both through the Persian Gulf war and the recent recession," Pritchard says. "The refineries and aerospace industry have kept us very busy this year."

As for the rest of the country, Tom Reid, vice president/general manager at Briggs-Weaver, says that the Houston area and the Gulf Coast have been strong, but most of the activity in Briggs-Weaver's sales territory has been fairly soft.

"We haven't seen a big increase yet," Reid says. "But I expect the situation to change later this year, particularly when some of the big contractors gear up for the reconstruction work in the Middle East."

The same cautious attitude held sway on the West Coast, as Joe Scheid, president of Scheid Industrial Supply in San Francisco, notes that economic activity in the Bay Area is "still spotty."

"I expect things to pick up," he says. "In this environment, you've got to reduce expenses, otherwise the smaller distributor won't be able to compete."—*By Steve Zurier* ID

[*EDI, bar coding*]

president of the Industrial Distribution Assn. (I.D.A.), agrees with Arthur Andersen that EDI is a priority item for industrial distributors.

"EDI is a readily available technology, Buffington says. "We've recommended that distributors use EDI for several years now."

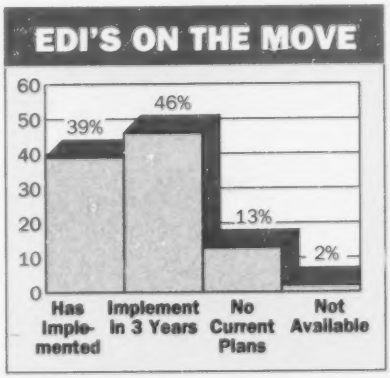
And the survey's results demonstrate that distributors have been listening to Buffington and his colleagues at the other industry trade groups. According to Arthur Andersen's study, more than 6,000 companies in the U.S. currently use EDI in some capacity. Expectations are for that figure to double over the next few years.

The report concludes that EDI is a natural for the industry because of the wholesaler-distributor's central position in the pipeline, as well as the many applications of EDI. Such applications include ordering, price notification, checking inventory levels, freight rate verification, payment, and cash management.

If EDI is a hot topic in 1991, bar coding is next on the laundry list for distributors. Pioneered by retailers in the early 1970's, bar coding has become an increasingly useful tool in the distribution industry.

Used primarily to code item or part numbers in inventory situations, study participants predict strong growth in the future. In fact, only 16% of the panelists say they have no current plans to implement bar coding.

EDI'S ON THE MOVE



EDI use among distributors will skyrocket in the next three years, says Arthur Andersen.

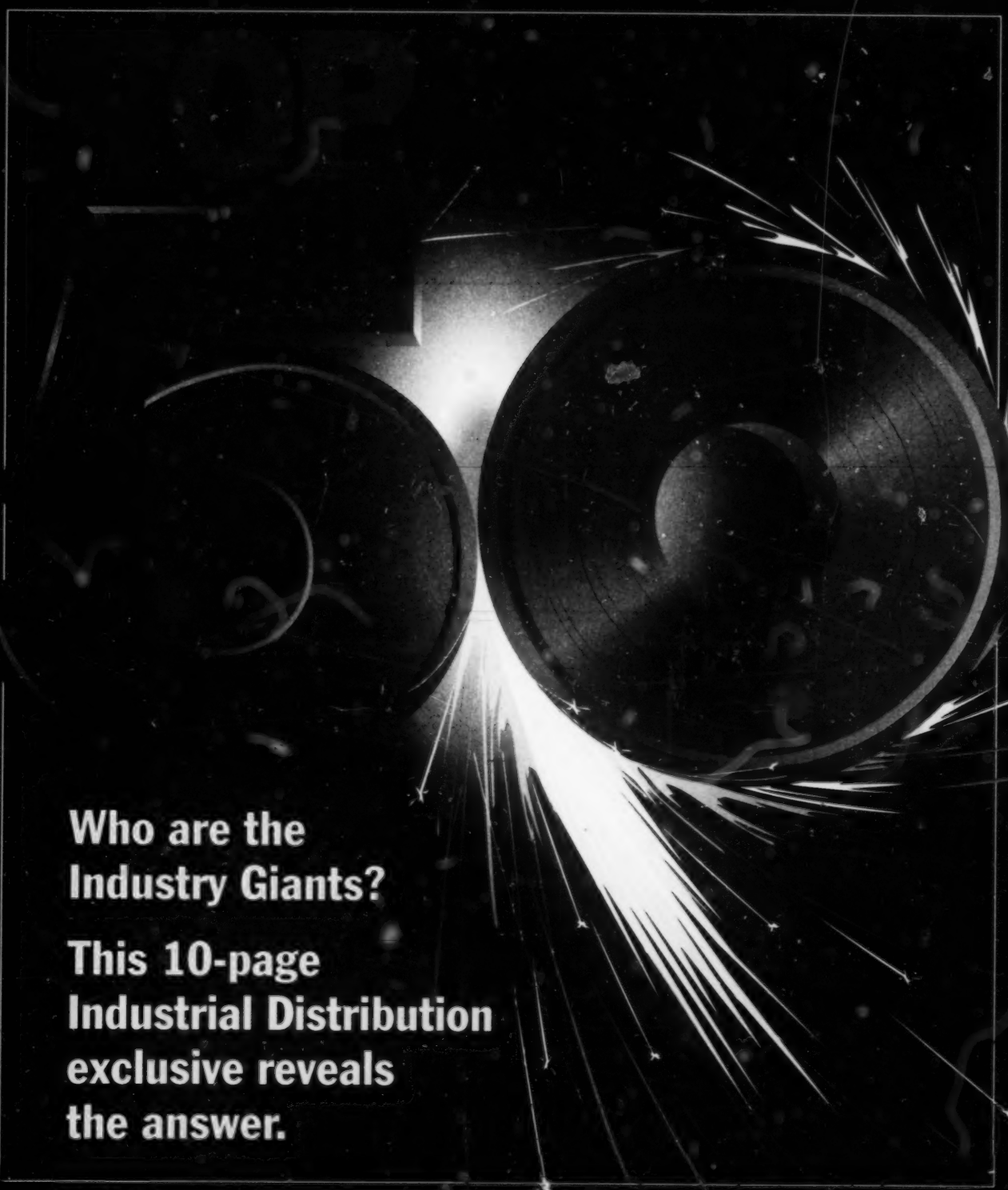
The study is available through the NAW, 1725 K Street, N.W., Suite 710, Washington, D.C. 20006. The study costs $90 for direct members, $120 for commodity-line members and $160 for non-members. Call Bobbi Woods at (202) 872-0885 for more information. ID

Arthur Andersen buys consulting firm

CHICAGO—Arthur Andersen has acquired Management Foresight, Inc. (MFI), a consulting firm noted in the distribution industry for publishing the Performance Analysis Report (PAR).

According to Arthur Andersen's Patrick W. Dolan, MFI generates ex-

[*Continued on p. 19*]



Who are the Industry Giants?

This 10-page Industrial Distribution exclusive reveals the answer.

Who's the biggest?

Rules of the Ranking

For years you've been asking: *Who's the biggest?* Well . . . after months of exhaustive research—conducted by an independent research firm—we're ready to tell you.

But, wait. Before we do, it's important that you keep the following points in mind. First, ID's ranking of the top 50 distributors in the U.S. and Canada is based solely upon individual sales volume. Unlike the ranking we published in 1987 which gave you the "Top 75 Distributors" according to supplier input, this ranking takes into consideration each firm's size according to its reported annual sales. In cases—and there were quite a few—where distributors were not willing to provide sales figures—we implemented a special formula to estimate sales for placement in the ranking. In these cases, you will find "est." indicated beside the figure to signify that it is not exact according to an authorized company official, but rather estimated in correspondence with our formula. Please note, too, that in cases where two companies report the same annual sales figure, they are ranked one before the other according to alphabetical order.

Secondly, because *Distribution's Top 50* is a ranking of size and sales volume, it should not serve to indicate that a company is better than another for any reason. We'll be the first to admit that hundreds of companies—maybe yours—are significantly smaller than the companies listed in this feature. And, in many cases, those companies may be managed as well, if not better than the distributorships you'll find listed here. (We'll be running a story on smaller distributorships in a coming issue.)

In reviewing our listing of the Top 50, you may notice that a few known industry giants—such as McMaster Carr, J & L Industrial, and Lab Safety Supply—have been omitted from the ranking. This was done purposefully, and the reasoning is simple. These houses are primarily mail order operations and thus vary sharply from the mainstream distributors we profile. In order to give our benchmark distributors the attention they deserve, we have left the mail order operations out.

Also keep in mind that several other more mainstream distributors which would normally have been included in the ranking have been omitted by request. For various reasons, several company officials preferred exclusion from the list. For example, one Northeastern distributor we talked to refused to be part of the ranking because sales would be published. If you should find that a particular distributor is missing, that is undoubtedly one of the reasons why.

At ID, we have done our best to develop a comprehensive ranking of *Distribution's Top 50*. After consulting association heads and other industry "gurus," and upon completion of our extensive research, we are confident that our ranking is complete and accurate. Each short profile is designed to offer spirited insights, boasting at least one quote from someone "in the know." And three lengthy features provide "up-close and personal" views of a few firms we think are special. Although you may not find your own company listed in *Distribution's Top 50*, we know you'll learn something about those companies that "made it." And, who knows . . . maybe next year!

1. W.W. Grainger
2. Bearings, Inc.
3. Motion Industries
4. McJunkin Corp.
5. Guillevin International, Inc.
6. Kaman Industrial Technologies Corp.
7. Acklands Ltd.
8. Cameron & Barkley Co.
9. Berry Bearing Company, Inc.
10. Fairmont Supply Co.
11. Briggs-Weaver, Inc.
12. Invetech Co.
13. Lawson Products, Inc.
14. Bowman Distribution
15. The Gage Co.
16. Safety Supply America Corp.
17. Doall Co.
18. Noland Co.
19. Vallen Co.
20. MSC Industrial Supply/ Sid Tool Co.
21. IBT, Inc.
22. J.N. Fauver Co.
23. Garrett Industrial Supply
24. Wallace Co., Inc.
25. Hub, Inc.
26. Dillon Supply Co.
27. Canadian Bearings Ltd.
28. R.S. Hughes Co.
29. Service Supply Corp.
30. John Wagner Assoc. (Grabber)
31. Texas Mill Supply Co.
32. Carlson Systems
33. Precision Bearing, Inc.
34. Rawson & Co., Inc.
35. Alamo Iron Works
36. Goodall Rubber Co.
37. Moody/Price Corp.
38. Cardinal Supply Co.
39. AC Supply Co.
40. Brake Supply Co.
41. Neill LaVielle Co.
42. Womack Machine Supply Co.
43. Strong Tool Co.
44. Drago Supply Co.
45. Wainbee Ltd.
46. James McGraw Inc.
47. Apache Hose and Belting, Inc.
48. Senco of Florida, Inc.
49. Ziegler Tools Inc.
50. Harbor Tool Supply Co.

1. W.W. Grainger

■ Skokie, IL

Wiley Caldwell, CEO

1990 Sales: $2 Billion

Branches: 322 **Employees:** 8,000

Distribution's Top 50 distributor should come as no surprise. General-line giant, W.W. Grainger, is far and away the winner. Catering to commercial and industrial contractors through a network of 324 branches and counting puts Grainger on top. And, according to Caldwell, quality will be the impetus to keep it there. "We will place an increased emphasis on quality as it relates to management, empowerment and training," he says. "Training is the most critical component because it puts employees in the position to do things right the first time."

2. Bearings, Inc.

■ Cleveland, OH

George L. LaMore, CEO

1990 Sales: $651 million

Branches: 345 **Employees:** 4,000

Thanks to the June 1990 acquisition of Corona Calif.-based King Bearing, Bearings, Inc. is on top of the industry. Boasting sales of $651 million in their own right, coupled with the West Coast distributor's $200 million, it's no wonder. The acquisition not only improved Bearings, Inc.'s profit potential, but expanded its market to include bearings, fluid power, and industrial belting, as well as bearings. Founded in 1923, company spokesman Richard Shaw reports that its Quality Assurance Distribution program promises nothing but future prosperity. He says, "Our goal is error free, on-time transactions and shipments."

3. Motion Industries

■ Birmingham, AL

Michael S. Gaffney, CEO

1990 Sales: $635 million

Branches: 196 **Employees:** 2,600

Motion Industries is in motion. There's no doubt about it. Having opened 37 branches in the past two years with expectations for starting at least 12 more in the coming years, growth is the name of the game. Gaffney says this about the power transmission, fluid power, and bearings power house, "We have an insatiable appetite for growth. While everyone else is cutting back, we're adding." A strong, well-trained work force is the catalyst for that growth, according to Gaffney. And, it must be working. Motion was recently selected by General Motors as an exclusive supplier to their coveted Saturn facility.

4. McJunkin Corporation

■ Charlestown, WV

Henry B. Wehrle, Jr., Chairman

1990 Sales: $550 million

Branches: 55 **Employees:** 1200

Although its investment in general line items is considerable, this privately held distributor's major focus is on industrial PVF and electrical. McJunkin credits its success to each branch's ability to tap into large, fully stocked shares of an $80 million-plus inventory. Stocking locations in 20 states are close to chemical, oil and gas, processing, and McJunkin's other major markets. The company's heavy emphasis on the "quality process" encompasses employees, suppliers and customers. It's in keeping with Henry Wehrle's earthy formula for growth: expand markets by providing more and better quality service.

5. Guillevin International, Inc.

■ Ville St. Laurent, Quebec CANADA

Jeanne Guillevin Wood, CEO

1990 Sales: $500 million

Branches: 120 **Employees:** 1,500

As one of the top distributors in Canada, Guillevin International, Inc. has a lot of staying power. "Consolidation started in Canada long before it hit the U.S.," says president and chief operating officer, Ken Philp. To what does he attribute Guillevin's longevity and success? "Our biggest strength is our broad offering of quality products," he says. Serving the commercial electrical market, institutions, and industrial users, 85-year-old Guillevin sells electric and industrial supplies, as well as safety, security and automation products.

6. Kaman Industrial Technologies Corp.

■ Bloomfield, CT

Richard K. Moynihan, President

1990 Sales: $420 million

Branches: 155 **Employees:** 1,300

"At Kaman, we like to think of ourselves as factory doctors—working side-by-side with customers to solve their application problems," explains Moynihan. Serving the pulp and paper, mining, food processing, agriculture, primary metal and automotive industries in the U.S. and western Canada, the 20-year-old firm is well on its way. More than 1,300 employees at 155 branches fulfill the company's mission daily: to help customers become more productive, more competitive, and more profitable by putting technology to work for them.

7. Acklands Limited
■ Saskatoon, CANADA

Rai Sahi, CEO

1990 Sales: $350 million

Branches: 200 **Employees:** 2,600

From its perch at the top of distribution in Canada, Acklands Ltd. views a consolidated market. But, no fear, its own share of the manufacturing and natural resource industries is growing by the day. With a vast product line of automotive and welding supplies, as well as industrial hardware and water pumps, the distributor is bound to remain high on our list for a long time to come. What's Acklands' secret? According to director of purchasing for the industrial and body shop divisions, Bob Cushnaghan, "It's not the fancy computers or even our quality products—it's our people."

8. Cameron & Barkley Company
■ Charleston, SC

Rufus C. Barkley, Jr., CEO

1990 Sales: $350 million

Branches: 70 **Employees:** 1,400

For 126 years, Cameron & Barkley has been a force in the distribution industry. Selling electrical, electronic, and industrial supplies to construction and manufacturing markets, the company has clearly made a name—and a profit—for itself. Seventy branches in eight states and more than 1,400 employees who jointly own the company characterize this general-line giant. And, according to company president, Jim Warren, that ownership structure is critical. "The key to a successful future lies in meeting or exceeding our customer's needs and expectations. Our employee-owners are committed to that."

9. Berry Bearing Co., Inc.
■ Lyons, IL

Gardner Larned, President

1990 Sales: $342 million

Branches: 90 **Employees:** 1,350

The largest distributor to steel mills in the country, Berry Bearings Co., is growing larger by the day. Ninety branches of this bearings and power transmission giant cater to 15 states from New Jersey to Montana—and more are on the way. "We'll expand by opening branches, not through acquisition," notes Larned. The company's staff is key to Berry's successful growth. "We promote from within. Coming in through the 'back door' gives our people the kind of broad experience they need to offer our customers the service they deserve."

10. Fairmont Supply Company
■ Washington, PA

W.T. Todd II, President

1990 Sales: $277 million

Branches: 25 **Employees:** 694

As the pioneers of DuPont's integrated supply system, Fairmont Supply is clearly a forerunner in the industry. Likewise, the company has some futuristic philosophies about distribution. "Distribution is not just selling products anymore. It's evolving to helping the customer control materials management costs through procurement and direct delivery," purports Todd. The general line house, started in 1921, is doing just that in 36 out of 50 states.

11. Briggs-Weaver, Inc.
■ Dallas, TX

Rob C. Mellor, President & CEO

1990 Sales: $220 million

Branches: 35 **Employees:** 820

Can you spell Mississippi? Briggs-Weaver, Inc. can. The general-line distributor with interests in Texas, Oklahoma, Arkansas, Louisiana and Alabama has just branched into Mississippi—targeting everything from the aerospace to utilities industries. And, it seems, future expansion is in the plans for this 95-year-old firm. "Our goal is to grow the business and increase profits," says Thomas Reid, vice president and general manager of the company's Supply Division. "The quality process is our main strategy and our thrust for the future."

12. Invetech Company
■ Detroit, MI

J. Michael Moore, Chairman & CEO

1990 Sales: $200 million +

Branches: 90 **Employees:** 1000

This privately held, 75-year-old bearing and PT distributor is in 18 states from the East Coast to Colorado. Its $50-million inventory of nearly 160,000 in-stock line items represents some 300 suppliers—and growing thanks to Invetech's committment to the customer. Thirty service mechanics and half-dozen applied engineers are symbols, notes Moore, "of how we focus on real customer needs," including designing, repair and customizing. Further, an amazing $500,000 of Invetech's budget is dedicated "to teaching quality to everyone from truck drivers to the president," says Moore.

13. Lawson Products Inc.
■ Des Plaines, IL

Peter G. Smith, President & COO

1990 Sales: $177.3 million

Branches: 6 **Employees:** 680

With sales exclusively through independent reps, and 95% of its $12.5 million inventory sold under the private Lawson label, this publicly held distributor of maintenance items boasts a loyal following of some 185,000 customers. Up to 93% of the products from 700 suppliers must comply to Lawson specs established and overseen by its quality engineering group. Up to 99% of deliveries are right out of stock. "We're not feeling the downturn," says Smith. "Maintenance is higher during a recession."

14. Bowman Distribution
■ Cleveland, OH

John M. Knapp, Executive V.P.

1990 Sales: $167 million

Branches: 8 locations, 8 customer service centers

Employees: 750

"Our job is to make our customers as efficient as they possibly can be by getting the right product to the right place in the right time," asserts Knapp. The company's unique JIT system and its quality and safety focus are the key components that enable this general-line house to do that job. As for the future? More of the same. "Our leadership in the future will hinge on quality," predicts Knapp.

15. The Gage Company
■ Pittsburgh, PA

Lloyd H. Morgan, President

1990 Sales: $150 million

Branches: 32 **Employees:** 510

This combination house—industrial and wholesale plumbing—boasts locations in eight states within key Midwest and eastern markets as well as a widely diversified, $30 million inventory. In the past 10 years, the acquisition-bent company has added some 18 locations—most recently the Westco plumbing and heating chain. "We'll continue to look for growth opportunities," mainly, says Morgan, by acquisition. Century-old Gage also prides itself on a tenure record symbolized by its well-populated 40-Year Club and Morgan's 36 years with Gage.

16. Doall Company
Des Plaines, IL

Michael Wilkie, President & Chairman

1990 Sales: $145 million

Branches: 75 **Employees:** 725

70-year-old Doall has branches in Canada, Europe and as far away as Australia. Originally a manufacturer of bandsaws, the company is in full-line distribution with a stellar reputation as a source of precision measuring and cutting tools, bandsaws, and turnkey installation of complete shops. Around 10% of its income is from systems contracts. Plans for the future call for growth through acquisitions and Doall is well on its way, having acquired four distributors in 1989. "Our mission statement, which includes supplying quality products and superior value-added benefits, says it all," says Wilkie.

17. Noland Company
Newport, VA

Lloyd U. Noland, III, Chairman & CEO

1990 Sales: $116.9 million

Branches: 92 **Employees:** 1,900

Noland Company's operation is carefully categorized under four divisions: Plumbing and heating, air conditioning, electrical and industrial. The combination of all four brings total sales for the 76-year-old house to $454 million. But, for the purposes of our ranking, we only tallied the final two components. Catering to the utility, construction, and manufacturing industries, these two divisions alone were enough to put Noland high on our list. And, this is just the start, according to Noland III. "The industrial department continues to offer us perhaps the greatest potential for increased sales in the decade of the 90's," he says.

18. Vallen Corporation
Houston, TX

J.M. Wayne Code, President & CEO

1990 Sales: $105 million

Branches: 35 **Employees:** 427

With mounting national concern for safety and liability, this publicly held distributor successfully treads the line via a $17-million inventory of some 10,000 approved safety products and a $200,000-plus annual training program. Vallen's broad-based approach to sales includes in-plant safety stores, repair services, an EDI network currently numbering 30 customers, and 120 inside and outside salespersons scattered through 35 branches. "We're going to continue to expand our presence," says Code, citing recent expansions into other states, including Alaska.

19. MSC Industrial Supply/ Sid Tool Co.
Plainview, NY

Mitchell Jacobson, President

1990 Sales: $100 million +

Branches: 20 **Employees:** 500+

This aggressive, East Coast distributor is a 10-state, 20-branch, money machine boasting 25% growth in the last five years. An ex-master distributor, MSC'S passion for quality ranges from its roster of blue chip suppliers for 75,000 catalog items, overnight delivery and 97% customer service level, to in-house QC, and training programs with a performance manager and two trainers. Says Jacobson, "Our formula is simple. We're going to continue to provide our customers with ever-increasing value at ever-decreasing cost."

20. IBT, Inc.
Shawnee Mission, KS

Stephen R. Cloud, CEO & President

1990 Sales: $95 million

Branches: 40 **Employees:** 456

This privately held bearing and PT specialist, founded in 1949, is state-of-the-art in motivation and service. It has 40 branches in 10 Midwest states and an inventory valued at $23 million. IBT strong-points includes 20 trainers, five marketing specialists, the IBT Training Academy, two video studios, and 200 inside and 140 outside salespeople. The sales forecast for 1991 is $107 million. Says Cloud, "We're qualified and ready when customers reduce vendor lists and manufacturers opt for selective distribution."

21. J.N. Fauver Company
Madison Heights, MI

Frank J. Brayton, President

1990 Sales: $95 million (est.)

Branches: 15 **Employees:** 320

This multi-specialized distributor has diversified from fluid power into industrial filtration, automation, electrical and lubrication. Its 15 branches, eight sales offices and six authorized service centers in 14 mainly midwestern states, service and supply markets ranging from mobile industrial, construction and agricultural equipment, to machine tools and food processing. About half of Fauver's business comes from engineering and engineering-generated orders. Says Brayton, "As customers cut back, we assume more responsibility and make a greater impact in the marketplace."

22. Garrett Industrial Supply
Los Angeles, CA

Darryl Dillenback, President

1990 Sales: $90 million

Branches: 13 **Employees:** 325

Garrett Industrial Supply, one of distribution's revered companies, was purchased by cutting tool maker Kennametal Inc. in June 1989. Since that time, Garrett has moved forward on its plan of becoming a national distributorship. Dillenback says that management's target is to become a 35-branch operation with four regional hubs and $450 million in sales by 1996. "You can look for us to continue to be very aggressive in the years ahead," Dillenback predicts. "There's no question that we'll be making more acquisitions."

23. Wallace Company, Inc.
Houston, TX

John Wallace, CEO

1990 Sales: $90 million

Branches: 10 **Employees:** 280

1990 winner of the Malcolm Baldrige National Quality Award, Wallace Company is a growing symbol of distribution's commitment to quality. And, it's that commitment that's pushed the 49-year-old pipe, valves and fittings specialist into our Top 50. From near bankruptcy, John Wallace pushed the distributorship into the national spotlight and into the black. The Gulf Coast petrochemical and chemical and refining industries are reaping the rewards—but the sky's the limit. "National and international opportunities are opening for Wallace Co., and we're positioned to take advantage of them," remarks Wallace.

24. Hub, Inc.
Atlanta, GA

Barry S. Camp, President, Industrial Div.

1990 Sales: $85 million

Branches: 18 **Employees:** 366

This quarter-century-old, privately held PVF company boasts 18 branches in the lower southeastern states, but the number is growing. A $15 million inventory and a 20%-25% five-year annual growth is in full-swing thanks to an ambitious branching and acquisition program as well as diversified lines. Growth in 1991 is pegged at 10%, says Camp. "We work with customers day-to-day, both of us looking for ways to cut costs." Up to 14% of the business is from customizing and assembling. A new niche marketing program consists of two-man satellite branches with limited stocks, mainly to serve special customer needs.

Precision expands by leaps and bounds

Growth and change lead bearings house into the big time.

"We absolutely refuse to participate in the recession," says Dennis Circo, president and chief executive officer of Precision Bearing Co.

He's not kidding. In the last five years, the Omaha-based PT and bearings distributor has experienced a 300% growth spurt. The family-owned company has increased sales from $18 to $65 million in the same time period. And Precision has also jumped from 15 distribution centers to 28 in order to serve 22 states and Mexico.

For Precision, growth and expansion is a way of life and a way of business. And, it's no fluke. According to Circo, growth and change have always been top priorities for the distributorship, launched in 1945 by his father, Sebastian. And, as far as they're concerned the two go hand in hand. "You can't expect to grow if you don't implement changes at the same time. The system will fall apart," Circo asserts.

Dennis Circo and his father, Sebastian, oversee Precision Bearing's expansion mode.

Perhaps that's why Precision places so much importance on its own systems. One such system is communication. Developed by Precision's own software company in Florida, the communication program is the first data/communication network of its kind in the industry. Known as Enterprise, the system connects all branches on-line with a completely private digital fiber-optic network to voice and data communication. According to Circo, Enterprise provides direct interfacing with major suppliers, system-wide inventory information, customer-direct order entry, and more. "It doesn't allow for error," says Circo. "And, the system gives no option for doing it wrong."

The desire to thwart costly errors is all part of another system for Precision—the quality program. Having implemented Texas A & M University's quality process just over a year ago, Precision is right on-line with the industry-wide quality push. "With the growing number of requirements from manufacturers," says Circo. "You can't elect not to institute quality. It's an issue of survival." In an effort to keep in step with the growing number of quality requirements from its manufacturing end-users, Precision has developed a quality statement and made a costly commitment to quality training. "75% of our associates (employees) have participated in quality seminars," notes Circo proudly.

Key components

In addition to the carefully orchestrated systems, Circo attributes the vast portion of his company's successful expansion to three factors. The first, he points out, is geographical expansion. The company's ability to grow into new areas under the guise of systems contracts enables Precision to fight for market share. "We grow for ourselves and to serve our major end users," says Circo.

The second component in Precision's success is the addition of new divisions. The Liquid Handling and Materials Handling Groups are two new divisions. Explains Circo, "It's a total service concept."

Finally, Circo sites acquisitions as the third reason for Precision's prosperity. In recent years, the company made three transactions for a total of five new distribution centers. And plans for the future include three to four more acquisitions over the next few years.

Precision Bearing's confident attitude and aggressive approach will undoubtedly keep it out of the recession as its proud president claims. And, at this rate, you just may find Precision at the top of ID's top 50 before you can say "power transmission."

25. Dillon Supply Company
Raleigh, NC
R.L. McCann, President
1990 Sales: $80 million
Branches: 16 **Employees:** 400
Founded in 1914, French-owned Dillon reinforces its marketing of general-line industrial supplies with separate divisions covering steel, power transmission, and materials handling. Daily deliveries from heavy inventories are made by Dillon's own trucks in North and South Carolina, Tennessee, Kentucky and Virginia. However, buying and distribution is centralized in Raleigh. The system is unique, but, notes R.L. McCann, "One-stop shopping, extensive systems contracts business, and advanced computer control is what sets Dillon apart from its competitors."

26. Canadian Bearings Limited
Mississauga, Ontario, CANADA
Farrokh Khalili, President
1990 Sales: $75 million
Branches: 33 **Employees:** 300
Concentrating on bearings, belting, power transmission, motion control and fluid power, Canadian Bearings has been expanding gradually since its founding in 1947. Canadian's emphasis on electronic advancement is largely responsible for that growth. At the forefront of EDI technology, Canadian Bearings offers the benefit as part of its systems contracts, often going so far as to help customers get on-line. And the future? Says Joe Cassar, product manager, "Always bearing in mind our product specialties, acquisition is our main strategy for growth."

27. R.S. Hughes Company
San Jose, CA
R.S. McCollum, President
1990 Sales: $75 million
Branches: 26 **Employees:** 300
"If you don't listen to what your customers and suppliers are telling you, you are in trouble in this business," says Robert McCollum. That standard philosophy has guided R.S. Hughes since 1955 on the West Coast and has led it into Chicago and Florida as well. Carrying a narrow product line of adhesives, tapes, coated abrasives, and safety supplies, R.S. Hughes operates lean in personnel. But, these factors, and "doing the usual things well," have contributed to the company's success, says McCollum.

28. Safety Supply America
Carson, CA
Alan H. Bennett, President
1990 Sales: $150 million (est.)
Branches: 36 **Employees:** 500
In 1987, Figgie International combined nine safety products distribution companies to form Safety Supply America. Now a division of Figgie, Safety Supply is the largest independent distributor of safety product in the world—and growing. Serving the automotive, aerospace, chemical processing, semiconductor production, and food processing industries, the firm has directed goals for the future. "We'll continue to add to our distribution base through an active program of acquisitions and internal expansion," says Bennett.

29. Service Supply Corp.
Indianapolis, IN
Mel Seitz, Jr., President
1990 Sales: $74 million
Branches: 41 **Employees:** 500
Since its founding in 1948, Service Supply has grown steadily under the philosophy of the current president's grandfather. "Carry heavy inventories. Plow profits into more inventory. Carry only top quality lines. And treat customers ethically." It seems to work, but service and value added also come into play. Service Supply carries 88,000 fastener items, 85% of which are shipped within 24 hours. And manufacturing, plating and repackaging are only some of the "distribution plus" services offered.

30. John Wagner Associates (Grabber)
Concord, CA
Richard Holmberg, CEO
1990 Sales: $70 million
Branches: 36 **Employees:** 380
Inventors of the what spokesman Steve Moss calls, "the drywall screw that works," Grabber has been specializing in drywall supplies for the construction industry since 1966. Now an international firm with a scope that stretches into Canada, the Middle East, and Europe—not to mention the U.S.—Grabber consistently maintains its reputation for innovation and quality. And that dedication is keeping them on top. "We're always doing something new and something better," maintains Moss.

31. Texas Mill Supply Companies
Galena Park, TX
Monte K. Legro, President
1990 Sales: $70 million
Branches: 9 **Employees:** 252
A full-line industrial supply distributor, Texas Mill Supply and its jointly owned partner, Louisiana Mill Supply, cover most of Texas and southern Louisiana from their Houston-area headquarters. Since beginning in 1965, the company has grown steadily under a three-pronged philosophy: treat all employees as unique individuals, strive for a partnering relationship with customers, and provide quality products and service. Under that philosophy, Legro notes, "All employees share in year-end bonuses based on total company performance and their individual efforts."

32. Carlson Systems
Omaha, NE
Don Carlson, President
1990 Sales: $65 million
Branches: 16, plus 22 "twigs"
Employees: 340
For the past 44 years, Carlson has concentrated on two basic businesses: fastening and packaging systems. But, it's not as cut and dried as it seems. Catering to a customer base of residential construction, packaging industries and lumber yards, Carlson Systems supplements its product line with aftermarket items and outstanding service. "We want to sell our machines and supplies for them, but our repair service—available at all our branches—is also very important to us," Carlson purports.

33. Precision Bearing Company
Omaha, NE
Dennis Circo, CEO
1990 Sales: $60 million
Branches: 28 **Employees:** 300
(See story p.57)

34. Rawson & Company, Inc.
Houston, TX

R.E. Moore, President

1990 Sales: $60 million

Branches: 14 **Employees:** 184

Rawson specializes in computers, instrumentation and controls for process industries, chiefly petrochemical. From a traditional base in the Texas Gulf Coast, Rawson has followed its customer base since 1988 to North Texas, Florida and Puerto Rico carrying an in-depth stock comprised of exclusive lines. And, says Moore, "Our latest growth has come by adding a line of computers with software to control instrumentation for petrochemical processes." A well-qualified sales force helps Rawson stay on top of even the most highly technical advances. Moore notes, "They are specially trained to apply our entire line on an integrated basis."

35. Alamo Iron Works
San Antonio, TX

Anthony Koch, Chairman of the Board

1990 Sales: $56 million

Branches: 8 **Employees:** 425

An established Texas institution since 1877, Alamo Iron Works covers all of Texas except Dallas and the panhandle. And, they do it well. In fact, Alamo delivers a broad line of industrial supplies from a substantial inventory in its own fleet of trucks. At Alamo, customer service is the watchword company philosophy, but it's reinforced with strong sellers: Alamo's own foundries, machine shop, and metals distribution. "Customer service is number one with us," says Koch. "In fact, our value-added operations customers frequently become industrial supply customers as well!"

36. Goodall Rubber Co.
Quaker Bridge, NJ

Torgny Astrom, President and CEO

1990 Sales: $50 million

Branches: 30 **Employees:** 300

"Goodall's objective is to be the most desired distributor of quality products in every area we service," says Astrom. And, it seems, the 120-year-old specialty house is well on its way. By tailoring inventories and product lines to target accounts in selected markets and introducing specialized training programs and product catalogs, Goodall has improved its ROA by more than 20% in 1990. Plans for achieving that goal in the future include expansion by acquisition and carefully enhancing the product line.

37. Moody/Price Corp.
Baton Rouge, LA

Dan Daniel, CEO

Annual Sales: $41 million

Branches: 7 **Employees:** 120

With a six-state territory that stretches from Louisiana and Mississippi to Alabama and Arkansas, as well as parts of Tennessee and Florida, Moody/Price services the pulp and paper, oil and gas, and utilities markets with a mix of pneumatic components, steam traps, control valves, and electronic instrumentation. Founded in 1955, the firm's chief suppliers include Parker Hannifin, Foxboro, Ametek, and MagneTrol.

38. Cardinal Supply
South Windsor, CT

Martin Perry, President

1990 Sales: $38 million

Branches: 7 **Employees:** 155

In line with what management sees as a "trend toward large regional distributorships," Cardinal Industries acquired Brian supply, Lindquist Supply, Industrial Supply of Syracuse, and Chase Parker & Woodis in October, 1990. Systems contracts are in place with General Electric, Texas Instruments, Raytheon, and other Fortune 500 manufacturers throughout the Northeast. At the time of its launch, Martin Perry, president, announced a target of $100 million in sales by 1992.

39. AC Supply Co.
Milwaukee, WI

Thomas Schuster, President & CEO

Annual Sales: $36 million

Branches: 14 **Employees:** 145

Gene Owens, chairman of AC Supply who has 45 years of PT experience, describes the distributor's educational role as one of keeping customers abreast of equipment operation and maintenance. "We're doing more customer education now," he says, than at any time since the firm was founded in 1942. Foundry, pulp and paper, and food processing buyers flock to AC Supply's one-on-one and group sessions. Keeping customers informed, Owens says, is a way of making them "totally aware of our capabilities."

40. Brake Supply Company
Evansville, IN

Thomas Ashby, President

1990 Sales: $35 million

Branches: 4 **Employees:** 210

This specialty house carves its own niche in the industry by concentrating on four product categories and four major market areas. Ashby says the 45-year-old company grew over the years by selling hydraulics, pneumatics, drive trains, and friction materials to the mining, construction, marine and fleet markets. As for the future, Ashby says Brake Supply will stay profitable by dedicating itself to quality service. He says Brake Supply will grow both through acquisition and branch expansion. Notes Ashby, "We feel that in order to survive, we have to become a $100 million-a-year house by the year 2000."

41. Neill LaVielle Co.
Louisville, KY

Robert Pfeiffer, CEO

1990 Sales: $35 million

Branches: 2 **Employees:** 150

"The information age has come to the forefront of distribution, and we now have to shift emphasis toward managing assets instead of being primarily top-line driven." Those are the realities of distribution as Pfeiffer sees them from his post atop this broad-line house serving Kentucky, southern Indiana and Tennessee. And what are future needs for this 110-year-old firm? "We have to manage GMROI better. As we grow stronger—with minimum debt and a good inventory mix—we'll be dominant with our value-added capabilities and overall customer service."

42. Womack Machine Supply Co.
Dallas, TX

R.C. Womack, CEO

1990 Sales: $34 million

Branches: 12 **Employees:** 125

Serving the energy, defense, construction and materials handling industries, this 41-year-old distributorship is in a growth pattern. Mike Rowlett, executive vice president of Womack, says his company is in the midst of an expansion plan established three years ago. "Our goal was to hit $50 million in sales by 1995. We're a year and a half ahead of that schedule," he says. In the past few years, the company has doubled the number of its outside sales force, and expanded from fluid power into electrical controls and automation.

43. Strong Tool Company
Cleveland, OH

Robert Kraisner, President
1990 Sales: $33.5 million
Branches: 7, 3 sales offices
Employees: 97
(See story p.66)

44. Drago Supply Company
Port Arthur, TX

Joseph P. Drago, President & CEO
1990 Sales: $30 million +
Branches: 9 **Employees:** 180
Drago Supply Co. is celebrating its 60th year in business as an independent, family-owned distributorship. According to Drago, Drago Supply is in its 21st month of implementing the quality process—a program that has helped the company win major systems contract orders. Drago Supply sells MRO supplies to refineries, petrochemical plants, industrial contractors, and pulp and paper accounts throughout South Texas, Louisiana and Arkansas. Says Drago, "Our goal for the 1990s is to become a large regional distributor."

45. Wainbee Limited
Toronto, Ontario, CANADA

Ron Rodger, President
1990 Sales: $30 million +
Branches:12 **Employees:** 200
Wainbee Ltd. prides itself on being an employee-owned distributorship with a progressive profit sharing plan and a commitment to the highest quality customer service. The 34-year-old firm has prospered by selling pneumatics, hydraulics, controls, and production equipment to a broad cross section of industry throughout Canada. Rodger says that Wainbee's plans for the future include growth through acquisition and branch expansion. "Our goal is to double our size during the next five years," he remarks.

46. James J. McGraw Inc.
Richmond, VA

Kenneth Fisketjon, CEO
1990 Sales: $30 million
Branches: 11 **Employees:** 123
The James J. McGraw Co., established in 1866, is one of the oldest distributorships in the country. Serving the paper, tobacco, and manufacturing industries in Virginia, North Carolina and northern South Carolina, this distributor plans to expand through strategic acquisitions or mergers. "We recently became an employee-owned company," says George Sydnor, president of James McGraw. "Doing so gave employees even greater incentive to work closely with management." McGraw sells pt components, fluid power equipment, machine tools, cutting tools and abrasives.

47. Apache Hose & Belting, Inc.
Cedar Rapids, IA

William Nissen, President and COB
1990 Sales: $29.5 million
Branches: 5 **Employees:** 160
(See story p.64)

48. Senco of Florida, Inc.
Orlando, FL

Dale Nichols, CEO
1990 Sales: $24.4 million
Branches: 25 **Employees:**98
According to Roger Goen, general manager of Senco of Florida, the company's "ability to meet customers' changing requirements for the last 34 years" is what sets it apart from its competitors. Considering Senco's primary market—the highly competitive construction industry in Florida—it's a good thing. The company's niche—fasteners, electric power and hand tools, and automatic screw guns—undoubtedly plays a starring role in Senco's success as well.

49. Ziegler Tools Inc.
Atlanta, GA

Bill Ziegler, Sr.
1990 Sales: $21 million +
Branches: 1 **Employees:** 94
"Ziegler fills a niche in the industry. We only handle expendable tooling and related products—and that's all," says Turner Wormack, vice president of sales. That specialization, he says, is what puts Ziegler, founded in 1948, in a league by itself. Selling to the metal working, assembly, manufacturing, and fabrication industries in Georgia, South Carolina, Alabama, and Tennessee with an amazing team of 20 outside sales people is what keeps Ziegler on top.

50. Harbor Tool Supply Company
Westwood, MA

Stuart Silbert, President
1990 Sales: $20 million
Branches: 3 **Employees:** 100
"At Harbor Tool, we lend our well-recognized, national manufacturers the regional credibility they're seeking," says Silbert. Currently, the 45-year-old company services the New England and Florida regions. But, notes Silbert,"Our goal is to become a greater force along the East Coast." Continuing to target the metal working industry—now in Pennsylvania, Georgia, and North Carolina as well—Harbor is on its way.

This report was researched by an independent, New York-based research firm in cooperation with key executives at the top fifty firms profiled. This feature has been compiled by ID's staff editors and written by Christine Forbes.

Apache's tribe keys into success

Hose and accessories house puts the onus on its people . . .and profits.

When Apache Hose & Belting, Inc. became an employee-owned company through an ESOP in 1989, the objective was simple: To provide a means for company founder, Robert South, to receive a return on his investment. Now, two years later, that objective has been met . . . and then some.

According to company president and chairman of the board, William Nissen, this specialty hose and belting distributor is on top of its game largely because of its employee-owned status. "Because we are owned by our employees, our employee satisfaction level is high and our turnover rate is very low," Nissen explains. "This consistency and concern translates directly into outstanding customer service and this contributes significantly to the success of the firm."

Apache Hose & Belting is an employee-owned firm, but president Bill Nissen, leads the troops.

Success is an understatement. Since the 1970's, Apache has doubled its sales every five years to a resounding $29.5 million for 1990. And, that's all despite the remarkable downturn in the company's staple markets: agriculture and construction. "As a Mid-Western company, we rely heavily on agriculture, and for the last several years—it has been way down," notes Nissen. Construction, too, is on the wane on a nation-wide level, he points out. "We pride ourselves on what we've done and that we've been able to grow in spite of this recession."

Now the question is how? Again, Nissen cites the quality of his work force as a major factor in the company's prosperity during adversity. "Our ability to retain key employees and replace the select few with strong candidates keeps us on top of things," he reports. "And, it affords us the luxuries of time and talent to devote to other aspects of the business."

Those other aspects—specifically customer and product development—have also enabled Apache to keep its head above water during the agriculture and construction drought. The distributorship, launched in 1963, places a great deal of emphasis on its increasing list of value-added services. Conveyor belt fabrication, as well as custom-fitted couplings have become a large part of Apache's business over the years. "Three shifts of employees work five days per week in our conveyor belt production department to modify standard belting," explains Nissen. "We've found that there's a great need for this kind of service. And, the potential for growth is even greater than the current need."

The value-added services Apache provides are particularly profitable in the non-agricultural market which makes up the remaining percentage of its business. The OEM market, in addition to the small distributor market have great interest in such products. "Such services as belt fabrication are not economically feasible for the smaller distributors to provide. Nor do they have the product demand or the space to inventory them," explains Nissen. "Belting is our specialty, so other industrial distributors look to us." Smaller distributors have become a strong market for Apache in the past few years, according to Nissen.

Inventory is yet another area where Apache places a significant amount of emphasis, and to which they attribute much of their great success. "We've always tried to operate the business with the old-line philosophy of 'You can't sell out of an empty wagon,' " remarks Nissen.

Fighting to succeed, like the Indians who bear the Apache name, this Mid-Western distributor is on the right track. And, the horizons look broad and bright. According to Nissen, the employee-owners have retired more than half of the debt the company incurred in creating the ESOP. And, they're happy to report that the leverage won't retard Apache's growth. "We're open to acquisition," says Nissen. "And, we'll continue to concentrate our efforts in the product development area as a means for expansion."

Strong Tool makes strong showing

Service and quality formula proves a boon for cutting tool and abrasive distributor.

Robert Kraisner, president of Strong Tool Company, uses the word "glut" to describe the state of the industrial market today. "There's a glut of distributors and manufacturers," he says. "And it's causing chaos."

Some might say Strong Tool is contributing to that chaos. But, in fact, this cutting tool and abrasive house is doing its best to eliminate the chaos with several key strategies.

According to Kraisner, market penetration is the most critical strategy. "There's not enough business out there to grow through new business. In fact, it's just the opposite," he says. "In this mature and shrinking market, the most feasible way to grow is by displacing the competition." Understanding this, how does the Cleveland, Ohio-based distributor plan to execute its strategy? By stressing service, quality, and technical ability over price. "Price has been beaten down to the lowest point. Now we must set ourselves apart by standing out in these areas," he explains.

Kraisner and his partners, Jon Greffe and John Siskovic, make Strong Tool stand out from the competition by placing great significance on their people. Kraisner says, "It's a continuing circle. Hire good people and treat them right, they'll give good service to your customers and you'll get more business. It's simple. And it creates growth."

On line with that growth plan, Kraisner touts manufacturer alignment as Strong's second tack for achieving success. "It's not enough to just sell products. You must align yourself with a world-class family of manufacturers," he explains. And, Kraisner notes, these alliances must stand true through both good times and bad. "There should be no such thing as a fair weather partnership. That means loyalty—no competitive lines. And it also means a constant commitment to incentives."

One of Strong Tool's secrets for success is manufacturer alignment.

Customer commitment

Strong's pledge to the customer is as steadfast as its commitment to the manufacturer. "As a stable extension of the manufacturer, customers look to us for answers and support," he points out. Strong gives the customers what they need and more, according to Kraisner. He uses the company's relationship with Acme Steel in Chicago as an example. Strong has handled purchasing and storehouse management for the steel conglomerate for several years—a unique responsibility for a distributor. But, it's all part of Strong's goal to "bring the total package to the customer." Kraisner explains, "It's important to be flexible and meet the needs of the people you serve. As times change, we change with them."

Strong Tool's noteworthy approach to the manufacturer and the customer has played a starring role in the company's remarkable growth in the last 19 years. Since the trio bought the company in 1972, sales have skyrocketed from $1.2 million to $33.5 million.

The final strategy for thrusting sales still higher, says Kraisner, is geographic expansion. By opening new distributorships across Ohio—instead of taking the acquisition route—the company fulfills its capacity for growth. "We seek out market areas with strong potential and bring our manufacturers and personnel with us," Kraisner points out. "We feel strongly that this is the most effective means for expansion because we can guarantee everything. Acquisition doesn't afford that."

In addition to new branches, Strong Tool also opened a new central headquarters in March. The 20,000-square-foot facility is designed to meet the personnel, quality control, purchasing and inventory management needs of the company. "We're aiming to attack the cost drivers with our new location," says Kraisner. Considering the firm's record up to now, Strong's on the right track. ■

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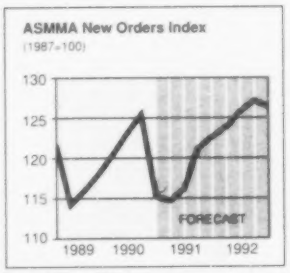
By Paul Waters

Operating rates signal early rebound

By avoiding inventory overhang, manufacturing's ready to react to market realities.

When is it good for operating rates to plummet? Now. The quick reaction we're seeing to the downturn bodes well for the future recovery, which will occur more quickly because manufacturing has avoided past problems such as inventory overhang. For the present, however, U.S. industry faces expensive, idle capacity. From a level of 83% in July (the month before the Middle East crisis), operating rates plunged to 78.8% in January 1991. The result was that total capacity utilization fell from 83.8% in July to 79.9% in January.

The outlook calls for steady improvement over the next two years. Primary processing will see rates climb from 80.3% in January to 84% by year-end. Expect them to stay above 84% in 1992. Advanced processing utilization, which includes OEM, will climb from a dismal 78.2% in January to 81% by year-end. Look for rates to hover around there in 1992. Consequently, expect rates for total manufacturing to hit 82% by the end of 1991 and stay in that range in 1992.



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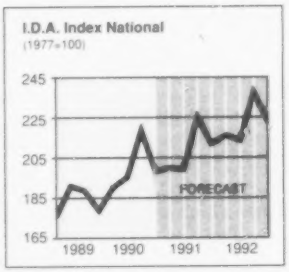

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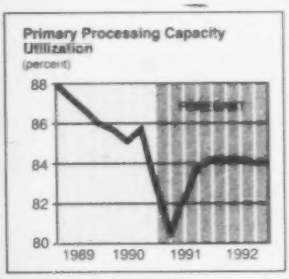
What's the source of this silver lining? The commodity-led inflation of 1989-90 has fallen, despite surge in oil prices. With demand weak, the higher oil prices drove down tags on commodities from food to metals. This tempered short-term inflation during the crisis.

The medium-term inflation outlook is rosy. With ample capacity, manufacturers will easily cope with increased demand. This will keep leadtimes low, which in turn will keep price hikes on industrial materials low. While the crude materials PPI rose 14% in the fourth quarter of 1990 over year-ago levels, it will slowly subside throughout 1991. As a result, expect inflation on crude materials to be just 2.5% this year. Look for a 2.5% drop in 1992.

Producer price inflation on intermediate materials has also begun to abate. Look for it to rise just 2.7% during 1991 and a mere 1.4% in 1992. With low price hikes upstream, producer price inflation on finished goods will rise 3.3% this year and 4.0% in 1992.

With ample capacity and prudent restraint by the Federal Reserve, inflationary pressures should be mild for at least the next two years.



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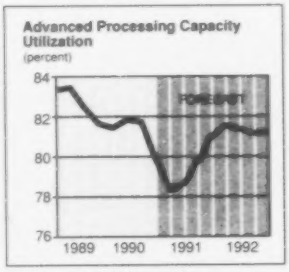

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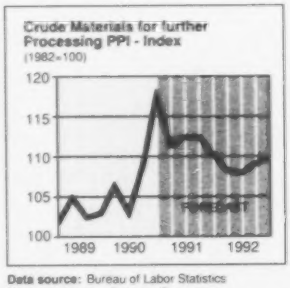

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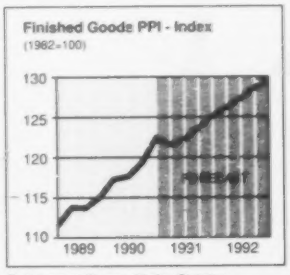

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(1977=100)	SALES Feb. 1991	SALES Jan. 1991	SALES Feb. '91 vs Feb. '90 % change	RECEIVABLES Feb. 1991 days	INVENTORY Jan.-Feb. 1991 % change
TOTAL	218.7	203.4	13.5	40.1	0.4
EAST	210.1	212.0	30.7	43.5	-0.7
SOUTH	338.4	294.9	27.2	37.6	-0.4
CENTRAL	169.0	165.3	1.4	41.3	1.0
WEST	225.9	211.0	12.7	34.4	1.6

SOURCE: Industrial Distribution Assn.

CLIFTON'S VIEW

By Robert G. Clifton

U.S./Canada Free Trade pact revisited

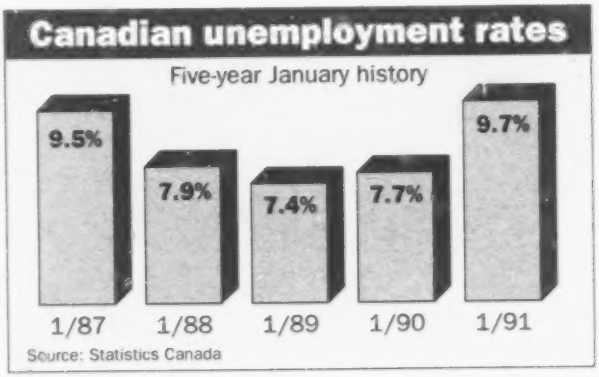
As the Free Trade Agreement enters its third year, who's benefiting?

In January, 1989, the long negotiated US/Canada Free Trade Agreement became effective. On both sides of the border, economic predictions ran the gamut from dire disaster to massive benefits for both countries. What are the results?

Basically, it's too early to tell. The reason is twofold. First, the agreement's terms call for mutual tariff cuts to be *gradually* phased in over a five- or ten-year period—depending on the goods—until all tariffs are eliminated. Second, the business slowdown has lowered trade levels for both countries, reducing the impact of tariff cuts.

We're all aware of the U.S. economy's depressed state. But the Canadian economy is heading downward to what some economists say may be the worst level since the 1930's. The Canadian unemployment rate of 9.7% is a five-year high. In January of this year 40,000 Canadians lost their jobs; 26,000 were put out of work in the industrial heartland of Ontario.

What would a severe Canadian depression mean to the U.S. industrial sector? The immediate impact, despite declining tariffs, would be a decreased demand for U.S. industrial products. However, economists claim that since Canadian manufacturing is the worst sector hit by the downturn, many plants will close permanently, or be moved to the U.S., Mexico or the Caribbean. The long range result then, would be a larger Canadian market for imported industrial goods.



Regardless of Canada's present industrial weakness, Canada remains an economic giant due to its wealth of natural resources. The U.S. depends on Canada's minerals, oil, lumber, fisheries, farms, and cheap hydroelectric power. Canada's trade balance with U.S. remains very favorable for Canada—$925 billion for the month of December 1990. But it can also be theorized that Canadian industry, when exposed to free competition, could be unable to compete with the U.S. because it is geared to supply a much smaller domestic market. In the long run the Trade Agreement could balance U.S. manufacturers' products transported north with Canadian raw and semi-finished exports coming south.

Another way of looking at the U.S./Canadian trade figures is to compare trade for common industrial products. Grinding wheels, for example, are one of the products on which tariffs are being phased out over a 10-year span. During 1990 the U.S. exported $17.6 million in grinding wheels to Canada, and Canada exported only $1.8 million worth of those products to the U.S. In 1990, the Canadian tariff rate on U.S.-made wheels was 8.1%, and dropped to 7.1% in 1991. Those rates are already appreciably lower than what Canada charges most other countries.

Trade figures on twist drills, already a tariff-free product, favor the U.S. also; $9.7 million worth went north in '90 and only $300 thousand in twist drills came south.

However, trade is a balancing act, where the rules must be worked out intelligently and equitably for both partners. A cherished domestic customer, say an oil-fired electric utility in New England, would most likely lose out to a more efficient Canadian energy supplier.

Now is the time to become knowledgeable about foreign trade and its trends. There are two sources where you can get information. (1) Most manufacturing associations track the complex government data on imports and exports for their own product lines. (2) The U.S. Department of Commerce has specialists eager to help businesses get into exporting. They have many tools and databases available, and offer private seminars.